

MT. PLEASANT HOUSING COMMISSION
MT. PLEASANT, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|---------------------------------|---|---------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Mt. Pleasant Housing Commission | County Isabella |
| Audit Date 3/31/05 | Opinion Date 10/24/05 | Date Accountant Report Submitted to State: 11/2/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Procedures for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

DEC 05 2005

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes to the financial statements, comments and recommendations

LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGR). | | | ✓ |

| | | | |
|--|------------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC | | | |
| Street Address 1107 E. Eighth Street | City Traverse City | State MI | ZIP 49686 |
| Accountant Signature <i>Barry E. Gaudette, CPA</i> | | Date | |

MT. PLEASANT HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Mt. Pleasant Housing Commission
Mt. Pleasant, Michigan

I have audited the accompanying financial statements of the business-type activities of the Mt. Pleasant Housing Commission, Michigan, a component unit of the City of Mt. Pleasant, as of and for the year ended March 31, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Mt. Pleasant Housing Commission, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of March 31, 2005.

Mt. Pleasant Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated October 24, 2005, on my consideration of Mt. Pleasant Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Mt. Pleasant Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bary E. Taullett, CPA, PC

October 24, 2005

MT. PLEASANT HOUSING COMMISSION
MT. PLEASANT, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
March 31, 2005
=====

The Mt. Pleasant Housing Commission, created in 1966, by the City of Mt. Pleasant provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended March 31, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Mt. Pleasant Housing Commission consists of three programs. The first is owned housing, consisting of 121 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 50 qualifying low-income residents for rental housing.

Mt. Pleasant Housing Commission had total revenues of \$699,924 that includes \$268,291 in rental payments and \$396,382 in federal assistance. Total revenues decreased by \$1,683 from the prior year, in part, because \$6,957 less was received in operating grants from the federal government compared to the prior year. Total operating expenses were \$922,784, that includes \$210,397 in administrative expenses, \$109,952 in utilities, \$199,507 in ordinary maintenance and operation, \$179,439 in housing assistance payments, and \$140,166 in depreciation expense. The operating expenses increased by \$17,247, in part, because of increased insurance costs of \$17,017.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$3,075,932. The Housing Commission's total net assets decreased by \$222,860 from the prior year. The decrease can be attributed, in part, to an adjustment to bring property balances in line with revised depreciation schedule per PHA capitalization policy.

Total assets of the Housing Commission were \$3,184,259, of which \$488,235 consisted of current assets and \$103,248 of current liabilities. There was a net decrease in total assets of \$533,191 from the prior year. The decrease is due, in part, because of the net decrease of \$451,711 in property and equipment.

Financial Highlights (continued)

Executive Director's Portion of the MD & A Letter:

The overall financial position of the Mt. Pleasant Housing Commission and results of operations for FYE 03/31/2005 is fair. The financial position has deteriorated during the year due to cuts in operating subsidy and the failure to utilize additional programs such as the Capital Fund Program. Another reason for the deterioration could be the unit turnaround time and leasing up of available units.

The individual fund balances have decreased due to the same reasons listed above. There are no restrictions or limitations that would significantly affect the availability of fund resources for future use.

The Mt. Pleasant Housing Commission has made a commitment to use the Capital Fund Program and upgrade equipment within the building as well as use some of those funds for normal operations.

The Mt. Pleasant Housing Commission will strive to significantly reduce budget expenses and align the budget in accordance with the operational needs of the Housing Commission while providing safe, affordable housing to those families that need it. Further, the Housing Commission has a plan in place to shorten the unit turnaround time of vacant units and keep the waiting lists current to fill vacancies expediently.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended March 31, 2005 and 2004.

| | <u>2005</u> | <u>2004</u> | <u>Net Change</u> |
|----------------------------------|--------------------|--------------------|----------------------|
| Current assets | \$ 488,235 | \$ 569,715 | \$ (81,480) |
| Property and equipment | <u>2,696,024</u> | <u>3,147,735</u> | <u>(451,711)</u> |
| Total assets | <u>\$3,184,259</u> | <u>\$3,717,450</u> | <u>\$ (533,191)</u> |
| Current liabilities | \$ 103,248 | \$ 60,220 | \$ 43,028 |
| Noncurrent liabilities | <u>5,079</u> | <u>2,833</u> | <u>2,246</u> |
| Total liabilities | <u>108,327</u> | <u>63,053</u> | <u>45,274</u> |
| Net assets: | | | |
| Invested in capital assets | 2,696,024 | 3,147,735 | (451,711) |
| Unrestricted | <u>379,908</u> | <u>151,057</u> | <u>228,851</u> |
| Total net assets | <u>3,075,932</u> | <u>3,298,792</u> | <u>(222,860)</u> |
| Total liabilities and net assets | <u>\$3,184,259</u> | <u>\$3,717,450</u> | <u>\$ (533,191)</u> |

Financial Analysis of the Housing Commission (continued)

The following table of summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended March 31, 2005 and 2004.

| | <u>2005</u> | <u>2004</u> | <u>Net Change</u> |
|------------------------------------|-----------------------------|-----------------------------|----------------------------|
| Operating revenues: | | | |
| Dwelling rent | \$ 268,291 | \$ 268,296 | \$ (5) |
| Nondwelling rent | <u>6,539</u> | <u>5,031</u> | <u>1,508</u> |
| Total operating revenues | <u>274,830</u> | <u>273,327</u> | <u>1,503</u> |
| Operating expenses: | | | |
| Administration | 210,397 | 196,223 | 14,174 |
| Tenant services | 6,643 | 8,639 | (1,996) |
| Utilities | 109,952 | 115,681 | (5,729) |
| Ordinary maintenance and operation | 199,507 | 192,687 | 6,820 |
| General expenses | 58,132 | 40,765 | 17,367 |
| Extraordinary maintenance | 18,548 | 15,178 | 3,370 |
| Casualty losses | | 100 | (100) |
| Housing assistance payments | 179,439 | 180,102 | (663) |
| Depreciation | <u>140,166</u> | <u>156,162</u> | <u>(15,996)</u> |
| Total operating expenses | <u>922,784</u> | <u>905,537</u> | <u>17,247</u> |
| Non-operating revenue: | | | |
| Interest income | 4,837 | 4,464 | 373 |
| Fraud recovery | 873 | 600 | 273 |
| Operating grants | 396,382 | 403,339 | (6,957) |
| Other income | <u>23,002</u> | <u>19,877</u> | <u>3,125</u> |
| Total nonoperating revenue | <u>425,094</u> | <u>428,280</u> | <u>(3,186)</u> |
| Change in Net Assets | <u><u>\$ (222,860)</u></u> | <u><u>\$ (203,930)</u></u> | <u><u>\$ (18,930)</u></u> |

FINANCIAL STATEMENTS

MT. PLEASANT HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
March 31, 2005
=====

ASSETS

Current Assets:

| | |
|---------------------------------|--------------|
| Cash | \$ 142,810 |
| Accounts receivable-tenants | 3,086 |
| Allowance for doubtful accounts | (780) |
| Accrued interest receivable | 101 |
| Investments-unrestricted | 316,150 |
| Prepaid expenses | 17,368 |
| Inventories | 1,915 |
| Due from other programs | <u>7,585</u> |

| | |
|----------------------|----------------|
| Total Current Assets | <u>488,235</u> |
|----------------------|----------------|

Property, Plant, and Equipment:

| | |
|-----------|---------------|
| Land | 243,557 |
| Buildings | 4,728,218 |
| Equipment | <u>84,237</u> |

| | |
|--------------------------------|----------------------------------|
| Less: accumulated depreciation | <u>5,056,012</u> (2,359,988) |
|--------------------------------|----------------------------------|

| | |
|------------------------------------|------------------|
| Net Property, Plant, and Equipment | <u>2,696,024</u> |
|------------------------------------|------------------|

| | |
|--------------|----------------------------|
| Total Assets | <u><u>\$ 3,184,259</u></u> |
|--------------|----------------------------|

See notes to financial statements

MT. PLEASANT HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
March 31, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:

| | |
|-----------------------------------|--------------|
| Accounts payable | \$ 52,697 |
| Tenant security deposit liability | 27,500 |
| Accrued expenses | 10,753 |
| Deferred revenues | 4,713 |
| Due to other programs | <u>7,585</u> |

Total Current Liabilities 103,248

Noncurrent Liabilities:

| | |
|------------------------------|--------------|
| Accrued compensated absences | <u>5,079</u> |
|------------------------------|--------------|

Total Liabilities 108,327

Net Assets:

| | |
|----------------------------|----------------|
| Invested in capital assets | 2,696,024 |
| Unrestricted net assets | <u>379,908</u> |

Total Net Assets 3,075,932

Total Liabilities and Net Assets \$ 3,184,259

See notes to financial statements

MT. PLEASANT HOUSING COMMISSION
**COMBINED STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS**
 Year Ended March 31, 2005
 =====

OPERATING REVENUES:

| | |
|------------------------------|--------------------|
| Dwelling rent | \$ 268,291 |
| Non-dwelling rent | <u>6,539</u> |
| Total operating revenues | <u>274,830</u> |

OPERATING EXPENSES:

| | |
|------------------------------------|--------------------|
| Administration | 210,397 |
| Tenant services | 6,643 |
| Utilities | 109,952 |
| Ordinary maintenance and operation | 199,507 |
| General expenses | 58,132 |
| Extraordinary maintenance | 18,548 |
| Housing assistance payments | 179,439 |
| Depreciation | <u>140,166</u> |
| Total operating expenses | <u>922,784</u> |

| | |
|------------------------|--------------------|
| Operating income(loss) | (<u>647,954</u>) |
|------------------------|--------------------|

NONOPERATING REVENUES:

| | |
|----------------------------|----------------|
| Investment interest income | 4,837 |
| Fraud recovery | 873 |
| Other income | 23,002 |
| Operating grants | <u>396,382</u> |

| | |
|-----------------------------|----------------|
| Total nonoperating revenues | <u>425,094</u> |
|-----------------------------|----------------|

| | |
|----------------------|-------------|
| Change in net assets | (222,860) |
|----------------------|-------------|

| | |
|--|-------------|
| Prior period adjustments, equity transfers and correction of errors | (355,605) |
|--|-------------|

| | |
|-----------------------|------------------|
| Net assets, beginning | <u>3,654,397</u> |
|-----------------------|------------------|

| | |
|--------------------|----------------------------|
| Net assets, ending | <u><u>\$ 3,075,932</u></u> |
|--------------------|----------------------------|

See notes to financial statements

MT. PLEASANT HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended March 31, 2005
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|-------------------|
| Cash received from dwelling and nondwelling rents | \$ 276,420 |
| Cash payments to other suppliers of goods and services | (430,317) |
| Cash payments to employees for services | (326,099) |
| Cash payments in lieu of taxes | <u>(15,918)</u> |
| Net cash (used) by operating activities | <u>(495,914)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

| | |
|--|----------------|
| Tenant security deposits | 3,224 |
| Operating grants | 433,255 |
| Fraud recovery | 873 |
| Other revenue | <u>23,002</u> |
| Net cash provided by noncapital financing activities | <u>460,354</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

| | |
|---|------------------|
| Payments for capital acquisitions | <u>(10,970)</u> |
| Net cash (used) by and related financing activities | <u>(10,970)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---|-------------------|
| Purchase of investments | (316,150) |
| Receipts of interest and dividends | <u>4,736</u> |
| Net cash (used) by investing activities | <u>(311,414)</u> |

| | |
|--------------------------------|------------|
| Net increase(decrease) in cash | (357,944) |
|--------------------------------|------------|

| | |
|-----------------|----------------|
| Cash, beginning | <u>500,754</u> |
|-----------------|----------------|

| | |
|--------------|--------------------------|
| Cash, ending | <u><u>\$ 142,810</u></u> |
|--------------|--------------------------|

MT. PLEASANT HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended March 31, 2005
 =====

**Reconciliation of cash and cash equivalents
 per statement of cash flows to the balance
 sheet:**

| | | |
|---|--|--------------------------|
| Cash | | \$ 142,810 |
| Restricted cash | | <u> </u> |
| Cash and cash equivalents per balance sheet | | <u><u>\$ 142,810</u></u> |

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

| | | |
|--|---|----------------------------|
| Operating income(loss) | | \$(647,954) |
| Adjustments to reconcile operating (loss) to net cash(used in) operating activities: | | |
| Depreciation | | 140,166 |
| Bad debt allowance | | 764 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accounts receivable-tenants | (| 2,557) |
| Prepaid expenses | | 4,578 |
| Inventories | | 1,833 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | | 245 |
| Accrued wage/payroll taxes payable | | 9,483 |
| Accrued compensated absences | (| 6,564) |
| Deferred revenues | | 4,147 |
| Accounts payable-PILOT | (| <u>55)</u> |
| Net cash (used) by operating activities | | <u><u>\$(495,914)</u></u> |

See notes to financial statements

MT. PLEASANT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2005
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mt. Pleasant Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Mt. Pleasant Housing Commission is a component unit of the City of Mt. Pleasant, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Mt. Pleasant in May 23, 1966, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Mt. Pleasant Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3062, the Housing Commission constructed, maintains and operates 121 units of subsidized housing in the City of Mt. Pleasant, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 50 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program. Although the Housing Commission has not in the recent past utilized the Capital Fund Program, it expects to in the next fiscal year.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the

Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Mt. Pleasant has elected to apply only those Financial Accounting Standards Board Statements issued prior to October 240, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

| | |
|------------------------|----------|
| Land improvements | 15 years |
| Buildings | 40 years |
| Building improvements | 15 years |
| Nondwelling structures | 10 years |
| Equipment - portable | 10 years |
| Furnishings | 5 years |
| Office equipment | 5 years |

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-Fy 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave can be accumulated to equal two year's normal vacation. One year's vacation days can be carried into the following year. Upon separation of any employee from the job, he/she shall be paid at the time of separation for the unused portion of his/her accumulated vacation earned unless separated for malfeasance.
- * Sick leave shall accumulate up to a total of ninety days, but is not paid upon being permanently separated from employment.
- * There is a personal leave pay policy of two days per year, but no accumulation can occur.

The amount of accumulated benefits at March 31, 2005, was \$14,562, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$142,760 and the bank balance was \$139,972 of which \$139,972 was covered by federal depository insurance. The Housing Commission has \$50 in petty cash on hand.

Investments

The Housing Commission had the following investments at the Isabella Bank & Trust as March 31, 2005:

| | |
|------------------------------------|-------------------|
| Certificate of deposit (#15043234) | \$ 12,500 |
| Certificate of deposit (#15043235) | 12,500 |
| Certificate of deposit (#15043236) | 20,000 |
| Certificate of deposit (#19026327) | 10,000 |
| Certificate of deposit (#19036842) | 15,000 |
| Certificate of deposit (#19037948) | 27,675 |
| Certificate of deposit (#19038036) | 15,000 |
| Certificate of deposit (#21036375) | 28,409 |
| Sweep account (#156331) | 170,059 |
| Savings account (#804062) | <u>5,007</u> |
| | <u>\$ 316,500</u> |

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

| | | |
|-----------------------------|----|-------------------|
| Cash on hand | \$ | 50 |
| Carrying amount of deposits | | 142,810 |
| Investments | | <u>316,150</u> |
| Total | | <u>\$ 459,010</u> |

| | |
|--|-------------------|
| Cash and cash equivalents: | |
| Enterprise activities | \$ 456,222 |
| Enterprise activities - checks written in excess of deposits | (1,049) |
| Enterprise activities - deposits in transit | <u>3,837</u> |
| Total | <u>\$ 459,010</u> |

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2005, the receivables were \$3,086 with \$780 estimated as uncollectible. Bad debt expense was \$1,180.

Accounts Receivables/Payables- HUD

Amounts due to HUD represents funding due from the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2005 were as follows:

| | |
|--------------------------------|------------------|
| Housing Choice Voucher Program | <u>\$ 33,979</u> |
|--------------------------------|------------------|

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|------------------|-----------------------------|--------------------------------|--------------------------|
| Low Rent Program | \$ 7,585 | Housing Choice Voucher Program | \$ 7,585 |
| | <u>\$ 7,585</u> | | <u>\$ 7,585</u> |

The capital fund program did not transfer any funds to the Low Rent Program during the fiscal year ended March 31, 2005.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

| | <u>Balance 03/31/04</u> | <u>Additions/Retirements/ Transfers</u> | <u>Transfers</u> | <u>Balance 03/31/05</u> |
|--|-----------------------------|---|-------------------|-----------------------------|
| Low Rent Program | | | | |
| Land | \$ 243,557 | \$ | \$ | \$ 243,557 |
| Buildings | 4,881,909 | 1,245 | 154,936 | 4,728,218 |
| Furniture, equip. & machinery - dwellings | 92,344 | | 92,344 | |
| Furniture, equip. & machinery - administration | <u>139,962</u> | <u>2,822</u> | <u>58,547</u> | <u>84,237</u> |
| | 5,357,772 | <u>\$ 4,067</u> | <u>\$ 305,827</u> | 5,056,012 |
| Less accumulated depreciation | <u>(2,210,037)</u> | <u>\$ (149,951)</u> | <u>\$</u> | <u>(2,359,988)</u> |
| Total | <u>\$3,147,735</u> | | | <u>\$2,696,024</u> |

NOTE 5: CONTRIBUTED CAPITAL

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended March 31, 2005, consist of the following:

| | <u>Invested in Capital Assets</u> |
|--|---------------------------------------|
| Balance, beginning | \$ 3,147,735 |
| Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital | <u>(451,711)</u> |
| Balance, ending | <u>\$ 2,696,024</u> |

These reclassifications are investments in fixed assets, net of depreciation paid for from operations, not included in contributed capital.

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission on April 1, 2002, began a Simplified Employee Pension Plan covering full-time employees that have completed a six-month probation period. The Housing Commission makes monthly contributions to the Plan equal to 12 percent of salaries. Upon separation, accrued funds remain the property of that individual. During the fiscal year ended March 31, 2005 the Housing Commission contributed a total of \$28,755.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended March 31, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

E. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

To bring property balances in line with revised depreciation schedule per PHA capitalized policy \$(322,515)

Housing Choice Voucher Program

To record HUD adjustment to year end settlement for FYE 3/31/04 \$(33,090)

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2005, was as follows:

| | <u>Low Rent Program</u> | <u>Capital Fund Program</u> | <u>Housing Choice Voucher</u> |
|---|-----------------------------|-------------------------------------|---------------------------------------|
| Condensed Statement of Revenues, Expenses, and Changes in Net Assets | | | |
| Dwelling and nondwelling rents | \$ 274,830 | \$ | \$ |
| Depreciation | (140,166) | | |
| Other operating expenses | (591,412) | | (191,206) |
| Operating(loss) | (456,748) | | (191,206) |
| Nonoperating revenues: | | | |
| Investment earnings | 4,333 | | 504 |
| Other income | 22,297 | | 705 |
| Fraud recovery | | | 873 |
| Operating grants | <u>194,092</u> | | <u>202,290</u> |
| Change in net assets | (236,026) | | 13,166 |
| Prior period adjustments | (322,515) | | (33,090) |
| Beginning net assets | <u>3,579,872</u> | | <u>74,525</u> |
| Ending net assets | <u>\$ 3,021,331</u> | <u>\$</u> | <u>\$ 54,601</u> |
| Condensed Statement of Cash Flows | | | |
| Net cash provided(used) by: | | | |
| Operating activities | \$ (304,719) | \$ | \$ (191,195) |
| Noncapital financing activities | 218,798 | | 241,556 |
| Capital and related financing activities | (10,970) | | |
| Investing activities | (311,918) | | 504 |
| Net increase (decrease) | (408,809) | | 50,865 |
| Beginning cash and cash equivalents | <u>455,443</u> | | <u>45,311</u> |
| Ending cash and cash equivalents | <u>\$ 46,634</u> | <u>\$</u> | <u>\$ 96,176</u> |

SUPPLEMENTARY INFORMATION

MT. PLEASANT HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 March 31, 2005
 =====

| | |
|---------------|---------------|
| C-3062 | Capital |
| Low Rent | Fund |
| Program | Program |
| <u>14.850</u> | <u>14.872</u> |

ASSETS

Current assets:

| | | | |
|-----------------------------|----|--------------|----|
| Cash | \$ | 46,634 | \$ |
| Accounts receivable-tenants | | 3,086 | |
| Allowance for bad debts | (| 780) | |
| Accrued interest receivable | | 101 | |
| Investments-unrestricted | | 316,150 | |
| Prepaid expenses | | 17,368 | |
| Inventories | | 1,915 | |
| Due from other programs | | <u>7,585</u> | |

Total current assets

392,059

Property, plant, and equipment:

| | | | |
|-------------------------------|---|--------------------|--|
| Land | | 243,557 | |
| Buildings | | 4,728,218 | |
| Equipment | | <u>84,237</u> | |
| | | 5,056,012 | |
| Less accumulated depreciation | (| <u>2,359,988</u>) | |

Net property, plant and
equipment

2,696,024

Total Assets

\$ 3,088,083 \$

| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
|--|---------------------|
| \$ 96,176 | \$ 142,810 |
| | 3,086 |
| | (780) |
| | 101 |
| | 316,150 |
| | 17,368 |
| | 1,915 |
| | <u>7,585</u> |
| <u>96,176</u> | <u>488,235</u> |
| | 243,557 |
| | 4,728,218 |
| | <u>84,237</u> |
| | 5,056,012 |
| | <u>(2,359,988)</u> |
| | <u>2,696,024</u> |
| <u>\$ 96,176</u> | <u>\$ 3,184,259</u> |

MT. PLEASANT HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 March 31, 2005
 =====

| | |
|---------------|---------------|
| C-3062 | Capital |
| Low Rent | Fund |
| Program | Program |
| <u>14.850</u> | <u>14.872</u> |

LIABILITIES and NET ASSETS

| | | |
|-----------------------------------|---------------------|-----------|
| Current liabilities: | | |
| Accounts payable | \$ 18,707 | \$ |
| Tenant security deposit liability | 27,500 | |
| Accrued expenses | 10,753 | |
| Deferred revenues | 4,713 | |
| Due to other programs | | |
| | <u>61,673</u> | |
| Total current liabilities | | |
| Noncurrent liabilities: | | |
| Accrued compensated absences | <u>5,079</u> | |
| Total liabilities | <u>66,752</u> | |
| Net Assets: | | |
| Invested in capital assets | 2,696,024 | |
| Unrestricted net assets | <u>325,307</u> | |
| Total net assets | <u>3,021,331</u> | |
| Total Liabilities and Net Assets | <u>\$ 3,088,083</u> | <u>\$</u> |

| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
|--|---------------------|
| \$ 33,990 | \$ 52,697 |
| | 27,500 |
| | 10,753 |
| | 4,713 |
| <u>7,585</u> | <u>7,585</u> |
| 41,575 | 103,248 |
| | <u>5,079</u> |
| <u>41,575</u> | <u>108,327</u> |
| | 2,696,024 |
| <u>54,601</u> | <u>379,908</u> |
| <u>54,601</u> | <u>3,075,932</u> |
| <u>\$ 96,176</u> | <u>\$ 3,184,259</u> |

MT. PLEASANT HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS**
 Year Ended March 31, 2005

=====

| | C-3062 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|--|--|---|
| OPERATING REVENUES: | | |
| Dwelling rent | \$ 268,291 | \$ |
| Nondwelling rent | <u>6,539</u> | <u></u> |
| Total operating revenues | <u>274,830</u> | <u></u> |
| OPERATING EXPENSES: | | |
| Administration | 198,680 | |
| Tenant services | 6,643 | |
| Utilities | 109,952 | |
| Ordinary maintenance and operation | 199,507 | |
| General expenses | 58,082 | |
| Extraordinary maintenance | 18,548 | |
| Housing assistance payments | | |
| Depreciation | <u>140,166</u> | <u></u> |
| Total operating expenses | <u>731,578</u> | <u></u> |
| Operating income(loss) | <u>(456,748)</u> | <u></u> |
| NONOPERATING REVENUES: | | |
| Investment interest income | 4,333 | |
| Fraud recovery | | |
| Other income | 22,297 | |
| Operating grants | <u>194,092</u> | <u></u> |
| Total nonoperating revenues | <u>220,722</u> | <u></u> |
| Change in net assets | (236,026) | |
| Prior period adjustments, equity transfers and correction of errors | (322,515) | |
| Net assets, beginning | <u>3,579,872</u> | <u></u> |
| Net assets, ending | <u>\$ 3,021,331</u> | <u>\$</u> |

| | |
|--|---------------------|
| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
| \$ | \$ 268,291 |
| | <u>6,539</u> |
| | <u>274,830</u> |
| 11,717 | 210,397 |
| | 6,643 |
| | 109,952 |
| | 199,507 |
| 50 | 58,132 |
| | 18,548 |
| 179,439 | 179,439 |
| | <u>140,166</u> |
| <u>191,206</u> | <u>922,784</u> |
| <u>(191,206)</u> | <u>(647,954)</u> |
| 504 | 4,837 |
| 873 | 873 |
| 705 | 23,002 |
| <u>202,290</u> | <u>396,382</u> |
| <u>204,372</u> | <u>425,094</u> |
| 13,166 | (222,860) |
| (33,090) | (355,605) |
| <u>74,525</u> | <u>3,654,397</u> |
| <u>\$ 54,601</u> | <u>\$ 3,075,932</u> |

MT. PLEASANT HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended March 31, 2005
=====

| | C-3062 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|--|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from dwelling and nondwelling rents | \$ 276,420 | \$ |
| Cash payments to other suppliers of goods and services | (248,205) | |
| Cash payments to employees for services | (317,016) | |
| Cash payments in lieu of taxes | (15,918) | |
| Net cash (used) by operating activities | <u>(304,719)</u> | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Tenant security deposits | 3,224 | |
| Due from/to other funds | (815) | |
| Operating grants | 194,092 | |
| Fraud recovery | | |
| Other revenue | <u>22,297</u> | |
| Net cash provided by noncapital financing activities | <u>218,798</u> | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Payments for capital acquisitions | (10,970) | |
| Net cash (used) by capital and related financing activities | <u>(10,970)</u> | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments | (316,150) | |
| Receipts of interest and dividends | <u>4,232</u> | |
| Net cash provided (used) by investing activities | <u>(311,918)</u> | |
| Net increase(decrease) in cash | (408,809) | |
| Cash, beginning | <u>455,443</u> | |
| Cash, ending | <u>\$ 46,634</u> | <u>\$</u> |

| Housing Choice Vouchers 14.871 | Totals |
|---|------------|
| \$ | \$ 276,420 |
| (182,112) | (430,317) |
| (9,083) | (326,099) |
| | (15,918) |
| (191,195) | (495,914) |
| | 3,224 |
| 815 | |
| 239,163 | 433,255 |
| 873 | 873 |
| 705 | 23,002 |
| 241,556 | 460,354 |
| | (10,970) |
| | (10,970) |
| | (316,150) |
| 504 | 4,736 |
| 504 | (311,414) |
| 50,865 | (357,944) |
| 45,311 | 500,754 |
| \$ 96,176 | \$ 142,810 |

MT. PLEASANT HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended March 31, 2005
 =====

| | |
|---------------|---------------|
| C-3062 | Capital |
| Low Rent | Fund |
| Program | Program |
| <u>14.850</u> | <u>14.872</u> |

**RECONCILIATION OF CASH AND CASH
 EQUIVALENTS PER STATEMENT OF CASH
 FLOWS TO THE BALANCE SHEET:**

| | | | |
|--|----|-------------------|----------------------|
| Cash | \$ | 46,634 | \$ |
| Restricted cash | | | |
| | | <u> </u> | <u> </u> |
| Cash and cash equivalents per balance sheet | \$ | <u>46,634</u> | \$ <u> </u> |

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

| | | | |
|--|------|----------------|----------------------|
| Operating income(loss) | \$ (| 456,748) | \$ |
| Adjustments to reconcile operating (loss) to net cash(used in) operating activities: | | | |
| Depreciation | | 140,166 | |
| Bad debt allowance | | 764 | |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in assets: | | | |
| Accounts receivable-tenants | (| 2,557) | |
| Prepaid expenses | | 4,578 | |
| Inventories | | 1,833 | |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | | 234 | |
| Accrued wage/payroll taxes payable | | 9,483 | |
| Accrued compensated absences | (| 6,564) | |
| Deferred revenues | | 4,147 | |
| Accounts payable-PILOT | (| <u>55</u> | |
| Net cash (used) by operating activities | \$ (| <u>304,719</u> | \$ <u> </u> |

Housing
Choice
Vouchers

14.871

Totals

\$ 96,176

\$ 142,810

\$ 96,176

\$ 142,810

\$ (191,206)

\$ (647,954)

140,166
764

(2,557)
4,578
1,833

11

245

9,483
(6,564)
4,147
(55)

\$ (191,195)

\$ (495,914)

MT. PLEASANT HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

| Fiscal Year | <u>Federal Grantor</u> | <u>CFDA No.</u> | <u>Expenditures</u> |
|----------------|--|-----------------|---------------------|
| | <u>U.S. Department of HUD</u> | | |
| | <u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u> | | |
| 2005 | Low Rent Public Housing | 14.850 | \$ 194,092 |
| | <u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u> | | |
| 2005 | Capital Fund Program | 14.872 | - |
| | <u>Low Income Public Housing</u> <u>Nonmajor Direct Program</u> | | |
| 2005 | Housing Choice Vouchers | 14.871 | <u>202,290</u> |
| | Total | | <u>\$ 396,382</u> |

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MT. PLEASANT HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2005

=====

| FDS Line Item No. | | C-3062 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-------------------------|---|--|---|
| | ASSETS | | |
| | Current Assets: | | |
| | Cash: | | |
| 111 | Cash-unrestricted | \$ <u>46,634</u> | \$ _____ |
| 100 | Total cash | <u>46,634</u> | _____ |
| | Receivables: | | |
| 126 | A/R-tenants-dwelling rents | 3,086 | |
| 126.1 | Allowance for doubtful accounts - dwelling rents | (780) | |
| 129 | Accrued interest receivable | <u>101</u> | _____ |
| 120 | Total receivables, net of allowance for doubtful accounts | <u>2,407</u> | _____ |
| | Investments: | | |
| 131 | Investments-unrestricted | <u>316,150</u> | _____ |
| | Other Current Assets: | | |
| 142 | Prepaid expenses and other assets | 17,368 | |
| 143 | Inventories | 1,915 | |
| 144 | Interprogram due from | <u>7,585</u> | _____ |
| | Total other current assets | <u>26,868</u> | _____ |
| 150 | Total current assets | <u>392,059</u> | _____ |
| | Noncurrent Assets: | | |
| | Fixed Assets: | | |
| 161 | Land | 243,557 | |
| 162 | Buildings | 4,728,218 | |
| 164 | Furn, equip & mach-admin. | 84,237 | |
| 166 | Accumulated depreciation | <u>(2,359,988)</u> | _____ |
| 160 | Total fixed assets, net of accumulated depreciation | <u>2,696,024</u> | _____ |
| 180 | Total noncurrent assets | <u>2,696,024</u> | _____ |
| 190 | Total Assets | <u>\$ 3,088,083</u> | <u>\$ _____</u> |

| | |
|--|---------------------|
| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
| <u>\$ 96,176</u> | <u>\$ 142,810</u> |
| <u>96,176</u> | <u>142,810</u> |
| | 3,086 |
| | (780) |
| | <u>101</u> |
| | <u>2,407</u> |
| | <u>316,150</u> |
| | 17,368 |
| | 1,915 |
| | <u>7,585</u> |
| | <u>26,868</u> |
| <u>96,176</u> | <u>488,235</u> |
| | 243,557 |
| | 4,728,218 |
| | 84,237 |
| | <u>(2,359,988)</u> |
| | <u>2,696,024</u> |
| | <u>2,696,024</u> |
| <u>\$ 96,176</u> | <u>\$ 3,184,259</u> |

MT. PLEASANT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2005
 =====

| FDS Line Item No. | | C-3062 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-----------------------------------|------------------------------------|--|---|
| LIABILITIES and NET ASSETS | | | |
| | Liabilities: | | |
| | Current Liabilities: | | |
| 312 | Accounts payable>=90 days | \$ 3,806 | \$ |
| 321 | Accrued wage/payroll taxes payable | 9,483 | |
| 322 | Accrued compensated absences | 1,270 | |
| 331 | Accounts payable-HUD PHA programs | | |
| 333 | Accounts payable-other government | 14,901 | |
| 341 | Tenant security deposits | 27,500 | |
| 342 | Deferred revenues | 4,713 | |
| 347 | Interprogram due to | | |
| 310 | Total current liabilities | <u>61,673</u> | |
| | Noncurrent Liabilities: | | |
| 354 | Accrued compensated absences | <u>5,079</u> | |
| 300 | Total liabilities | <u>66,752</u> | |
| | Net Assets: | | |
| 508.1 | Invested in capital assets | <u>2,696,024</u> | |
| 508 | Total invested in capital assets | 2,696,024 | |
| 512.1 | Unrestricted net assets | <u>325,307</u> | |
| 513 | Total Net Assets | <u>3,021,331</u> | |
| 600 | Total Liabilities and Net Assets | <u>\$ 3,088,083</u> | <u>\$</u> |

| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
|--|---------------------|
| \$ 11 | \$ 3,817 |
| | 9,483 |
| | 1,270 |
| 33,979 | 33,979 |
| | 14,901 |
| | 27,500 |
| | 4,713 |
| <u>7,585</u> | <u>7,585</u> |
| 41,575 | 103,248 |
| <u> </u> | <u>5,079</u> |
| <u>41,575</u> | <u>108,327</u> |
| <u> </u> | <u>2,696,024</u> |
| | 2,696,024 |
| <u>54,601</u> | <u>379,908</u> |
| <u>54,601</u> | <u>3,075,932</u> |
| <u>\$ 96,176</u> | <u>\$ 3,184,259</u> |

MT. PLEASANT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2005

| FDS Line Item No. | | C-3062 Low Rent Program 14.850 | Capital Fund Program 14.872 |
|-------------------------|--|---|--------------------------------------|
| | Revenue: | | |
| 703 | Net tenant rental revenue | \$ 268,291 | \$ |
| 704 | Tenant revenue-other | 6,539 | |
| 705 | Total tenant revenue | 274,830 | |
| 706 | HUD PHA grants | 194,092 | |
| 711 | Investment income-unrestricted | 4,333 | |
| 714 | Fraud recovery | | |
| 715 | Other revenue | 22,297 | |
| 700 | Total revenue | 495,552 | |
| | Expenses: | | |
| | Administrative: | | |
| 911 | Administrative salaries | 126,735 | |
| 912 | Auditing fees | 2,970 | |
| 914 | Compensated absences | (6,564) | |
| 915 | Employee benefit contributions - administrative | 51,817 | |
| 916 | Other operating-administrative | 23,722 | |
| | Tenant Services: | | |
| 921 | Tenant services-salaries | 6,630 | |
| 924 | Tenant services-other | 13 | |
| | Utilities: | | |
| 931 | Water | 17,823 | |
| 932 | Electricity | 38,810 | |
| 933 | Gas | 53,319 | |
| | Ordinary maintenance and operation: | | |
| 941 | Ordinary maint & oper-labor | 100,352 | |
| 942 | Ordinary maint & oper-mat'ls & other | 23,949 | |
| 943 | Ordinary maint & oper-contract costs | 34,175 | |
| 945 | Employee benefit contributions | 41,031 | |
| | General expenses: | | |
| 961 | Insurance premiums | 41,039 | |
| 963 | Payments in lieu of taxes | 15,863 | |
| 964 | Bad debt - tenant rents | 1,180 | |
| 969 | Total operating expenses | 572,864 | |

Housing
Choice
Vouchers
14.871

Totals

| | |
|----------------|----------------|
| \$ | \$ 268,291 |
| | <u>6,539</u> |
| | 274,830 |
| 202,290 | 396,382 |
| 504 | 4,837 |
| 873 | 873 |
| <u>705</u> | <u>23,002</u> |
| <u>204,372</u> | <u>699,924</u> |

| | |
|-------|----------|
| 6,957 | 133,692 |
| 330 | 3,300 |
| | (6,564) |

| | |
|-------|--------|
| 2,126 | 53,943 |
| 2,304 | 26,026 |

6,630
13

17,823
38,810
53,319

100,352

23,949

34,175
41,031

| | |
|----|--------------|
| 50 | 41,089 |
| | 15,863 |
| | <u>1,180</u> |

| | |
|---------------|----------------|
| <u>11,767</u> | <u>584,631</u> |
|---------------|----------------|

MT. PLEASANT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2005
 =====

| FDS Line Item No. | | C-3062 Low Rent Program <u>14.850</u> | Capital Fund Program <u>14.872</u> |
|-------------------------|---|--|---|
| 970 | Excess operating revenue over operating expenses | (77,312) | |
| | Expenses continued: | | |
| | Other expenses: | | |
| 971 | Extraordinary maintenance | 18,548 | |
| 973 | Housing assistance payments | | |
| 974 | Depreciation expense | <u>140,166</u> | |
| | Total other expenses | <u>158,714</u> | |
| 900 | Total expenses | <u>731,578</u> | |
| 1000 | Excess (deficiency) of operating revenue over(under) expenses | (236,026) | |
| 1103 | Beginning Net Assets | 3,579,872 | |
| 1104 | Prior period adjustments, equity transfers and correction of errors | <u>(322,515)</u> | |
| | Ending Net Assets | <u>\$3,021,331</u> | <u>\$</u> |

| | |
|--|-------------------------------------|
| Housing Choice Vouchers <u>14.871</u> | <u>Totals</u> |
| <u>192,605</u> | <u>115,293</u> |
| 179,439 | 18,548 179,439 <u>140,166</u> |
| <u>179,439</u> | <u>338,153</u> |
| <u>191,206</u> | <u>922,784</u> |
| 13,166 | (222,860) |
| 74,525 | 3,654,397 |
| (<u>33,090</u>) | (<u>355,605</u>) |
| <u>\$ 54,601</u> | <u>\$ 3,075,932</u> |

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Mt. Pleasant Housing Commission
Mt. Pleasant, Michigan

I have audited the financial statements of the business-type activities of the Mt. Pleasant Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated October 24, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Mt. Pleasant Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated October 24, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Tunkl, CPA, PC

October 24, 2005

MT. PLEASANT HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
MARCH 31, 2005
=====

| <u>Account Number</u> | <u>Account Name</u> | <u>Debit</u> | <u>Credit</u> |
|-----------------------|---------------------|--------------|---------------|
|-----------------------|---------------------|--------------|---------------|

LOW RENT PROGRAM:

There were no adjusting journal entries.

MT. PLEASANT HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2005

MT. PLEASANT HOUSING COMMISSION
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MARCH 31, 2005

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| Management Advisory Comments | 4-5 |
| Adjusting Journal Entries | 6 |

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Mt. Pleasant Housing Commission

I have audited the financial statements of the Mt. Pleasant Housing Commission ("Housing Commission") as of and for the year ended March 31, 2005, and have issued my report, thereon, dated October 24, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Barry E. Laidt, CPA, PC

October 24, 2005

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Mt. Pleasant Housing Commission

I have audited the financial statements of the Mt. Pleasant Housing Commission ("Housing Commission") as of and for the year ended March 31, 2005, and have issued my report, thereon, dated October 24, 2005. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

October 24, 2005

MT. PLEASANT HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
March 31, 2005
=====

Purchase Order System

The Housing Commission does not use a purchase order system.

I recommend the Housing Commission consider implementing a purchase order system.

Gasoline Purchases

Currently the gasoline purchases for the Housing Commission maintenance vehicles are made with a visa card.

I recommend the Housing Commission open up an account with a gasoline vendor that would use a specific account for each vehicle.

Laundromat Collections

Currently only one staff member collects the laundromat monies.

I recommend that two staff members collect the laundry monies at the same time when possible.

Cash Collections

Tenants have been allowed to pay their rents by cash, check or money order.

As of November 1, 2005, the Housing Commission is not accepting cash collections of tenant rents. I believe this improves internal controls.

Tenant Software Accounting

As of April 1, 2005 the Housing Commission is using a software vendor for recording tenant rent payments. In prior years the Housing Commission did not use software for this task. I believe that this improves internal controls.

MT. PLEASANT HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
March 31, 2005
=====

Rent Receipts

Currently rent receipts are prepared by hand.

I recommend that the Housing Commission consider using the tenant accounting software to print the receipt.

Invoices

The Housing Commission invoices are currently stamped "received date", but not any other markings after approved for payment.

We recommend that the Executive Director stamp the invoices with a "approve or deny" stamp before the Board Commissioner signs the checks. Also, before the check is mailed to the payee, the invoice should be marked with a "paid and date paid" stamp. These markings will prevent an invoice from being paid twice and provide another control on approval.

MT. PLEASANT HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
March 31, 2005

=====

| <u>Account #</u> | <u>Account Name</u> | <u>Debit</u> | <u>Credit</u> |
|------------------|---------------------|--------------|---------------|
|------------------|---------------------|--------------|---------------|

There were no adjusting journal entries necessary.